

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sault Ste. Marie Area Public Schools	County Chippewa
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 11/4/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name)

Anderson, Tackman & Company, PLC

Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 11/4/05	

Sault Ste. Marie Area Public Schools

**Financial Report
with Supplemental Information**

June 30, 2005

Contents

Independent Auditor’s Report	1 – 2
Administration’s Discussion and Analysis	3 – 14
Basic Financial Statements	
District –wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds	18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Fiduciary Fund	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to Financial Statements	22 – 39
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	40

Sault Ste. Marie Area Public Schools

Contents (Continued)

Other Supplemental Information

Schedule of Revenues – General Fund	41
Schedule of Expenditures – General Fund	42 – 48
Combining Balance Sheet – Nonmajor Governmental Funds	49
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – -Nonmajor Governmental Funds	50
Agency Funds:	
Statement of Changes in Assets and Liabilities - Summary	51
Statement of Changes in Assets and Liabilities – Detail	52 – 56

Reports on Compliance

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	57 – 58
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	59 – 60
Schedule of Expenditures of Federal Awards	61 – 62
Notes to Schedule of Expenditures of Federal Awards	63
Summary of Auditors' Results and Schedule of Findings and Questioned Costs	64 – 65
Summary Schedule of Prior Audit Findings	66

Unaudited – Additional Information	67 – 71
---	----------------



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

Independent Auditor's Report

To the Members of the
Board of Education
Sault Ste. Marie Area Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sault Ste. Marie Area Public Schools' management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Sault Ste. Marie Area Public Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005, on our consideration of Sault Ste. Marie Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Sault Ste. Marie Area Public Schools. The accompanying information identified in the Table of Contents, and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005

Administration's Discussion and Analysis

Sault Ste. Marie Area Public Schools is a pre-K-12 School District located in Chippewa County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sault Ste. Marie Area Public Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

U.S. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to prior year's financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Projects, and the Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-wide Financial Statements:

The District-wide financial statements are additional reporting formats. These statements are maintained using the "full accrual" basis. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Summary of Net Assets:

The following summarizes the net assets at fiscal years ended June 30, 2005 and 2004:

Net Assets Summary

Assets	<u>2005</u>	<u>2004</u>
Current assets	<u>\$ 7,105,567</u>	<u>\$ 7,115,504</u>
Capital assets	25,140,251	24,921,609
Less: Accumulated depreciation	<u>(9,176,783)</u>	<u>(8,440,054)</u>
Capital assets, net book value	<u>15,963,468</u>	<u>16,481,555</u>
Total assets	<u>\$ 23,069,035</u>	<u>\$ 23,597,059</u>
Liabilities		
Current liabilities	\$ 4,082,156	\$ 3,643,118
Long-term liabilities	<u>11,153,217</u>	<u>11,929,281</u>
Total liabilities	<u>\$ 15,235,373</u>	<u>\$ 15,572,399</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 4,245,543	\$ 3,995,869
Restricted for debt service	796,387	390,577
Unrestricted	<u>2,791,732</u>	<u>3,638,214</u>
Total net assets	<u>\$ 7,833,662</u>	<u>\$ 8,024,660</u>

1. Analysis of Financial Position:

During fiscal year ended June 30, 2005, the District's net assets decreased by \$190,998. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The district's expenditures from General Fund operations exceeded revenues by \$882,445 for the fiscal year ended June 30, 2005. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt, Principal Payments

The District made principal payments on bonded, lease and assessment debt obligations that reduced the amount of the district's long-term liabilities as follows.

	<u>Balance 06/30/04</u>	<u>New Borrowings</u>	<u>Principal Payments</u>	<u>Balance 06/30/05</u>
Lease Payable (Copier Lease)	\$ 176,896	\$ -	\$ (54,956)	\$ 121,940
Assessments & Bonds Payable	<u>12,180,081</u>	<u>7,780,000</u>	<u>(8,478,486)</u>	<u>11,481,595</u>
Total long-term obligations	<u>\$ 12,356,977</u>	<u>\$ 7,780,000</u>	<u>\$ (8,533,442)</u>	<u>\$ 11,603,535</u>

In February 2005, the District sold bonds to refund the 1999 bond issue. The funds from the 1999 bonds were used to renovate the Middle School. The net savings to the taxpayers is \$734,620 or a present value of \$534,134.

2. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2005, the net increase in accumulated depreciation was \$736,729.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

3. Capital Assets

The district's investment in capital assets decreased by \$518,087 during the fiscal year. This can be summarized as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/05</u>
Capital assets	\$ 24,921,609	\$ 218,642	\$ -	\$ 25,140,251
Less: accumulated depreciation	<u>(8,440,054)</u>	<u>(736,729)</u>	<u>-</u>	<u>(9,176,783)</u>
Net investment capital outlay	<u>\$ 16,481,555</u>	<u>\$ (518,087)</u>	<u>\$ -</u>	<u>\$ 15,963,468</u>

See Note 4 – Capital Assets later in the audit report for more detail.

4. Results of Operations:

For the fiscal year ended June 30, 2005 and 2004, the District wide results of operations were:

	(in thousands)	
	<u>2005</u>	<u>2004</u>
General Revenue:		
Property Taxes collected for General Operations	\$ 3,234	\$ 3,226
State of Michigan Aid – All Sources	15,466	16,740
Property taxes levied for Debt Service	1,007	1,004
Federal Impact Aid	674	650
Other – Investment Earnings, Fees	<u>767</u>	<u>29</u>
Total General Revenue	<u>\$ 21,148</u>	<u>\$ 21,649</u>
Program Revenue:		
Charges for Services – Local	\$ 1,017	\$ 981
Operating Grants – Federal and State	<u>4,210</u>	<u>3,700</u>
Total Program Revenue	<u>\$ 5,227</u>	<u>\$ 4,681</u>
Total Revenues	<u>\$ 26,375</u>	<u>\$ 26,330</u>
Expenses:		
Instruction and Instructional Services	\$ 17,729	\$ 18,381
Support Services	7,247	7,643
Community Services	118	101
Interest on Long-Term Debt	559	601
Depreciation (Unallocated)	737	763
Other	<u>176</u>	<u>106</u>
Total Expenses	<u>\$ 26,566</u>	<u>\$ 27,595</u>
Change in Net Assets	(191)	(1,265)
Beginning Net Assets	<u>8,025</u>	<u>9,290</u>
Ending Net Assets	<u>\$ 7,834</u>	<u>\$ 8,025</u>

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 17.9604 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2004–2005 fiscal year was \$3,475,286; the non-homestead tax levy increased by 11.0% over the prior year. The amount of unpaid personal property taxes at fiscal year end June 30, 2005 was \$24,379, or approximately .75% of the total levy.

The following summarizes the District's non-homestead levy the past four years:

<u>Fiscal Year</u>	<u>Non- Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2004 – 2005	\$ 3,475,286	10.5 %
2003 – 2004	3,144,000	1.7
2002 – 2003	3,091,369	2.0
2001 – 2002	3,030,181	2.8
2000 – 2001	2,947,578	(1.1)

Average Increase Last 3 Years 5.03%

2. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- State of Michigan Aid Act per student foundation allowance
- Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count
- The District's non-homestead levy

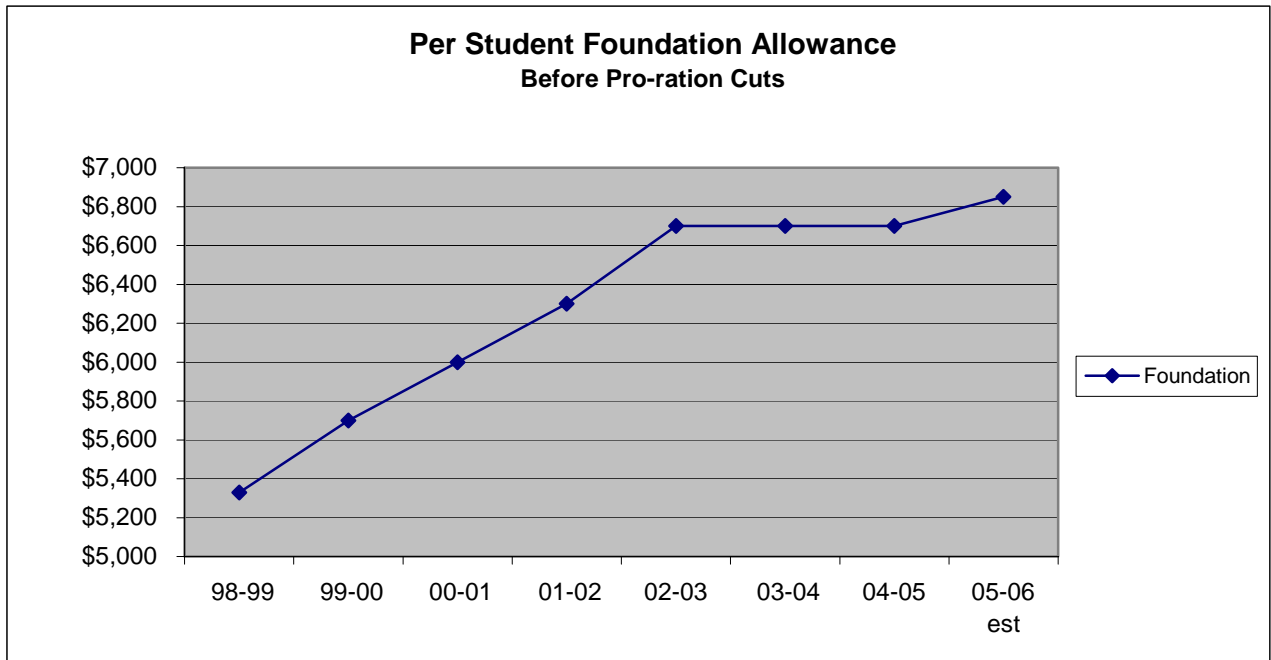
To calculate the amount of total State of Michigan Aid received, multiply the per student foundation allowance by the blended student count; subtract the total amount of non-homestead tax collected. The result is the amount of state aid paid to the district. The more local non-homestead property taxes collected, the less state aid received.

It should also be noted that the State of Michigan often makes adjustments to prior years' payments resulting in changes to final totals.

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Sault Ste. Marie Area Public Schools foundation allowance was \$6,700 per student for the 2004–2005 school year. This is an increase of \$0 or 0% over District's 2003–2004 foundation allowance per student of \$6,700.

The projected foundation allowance for 2005-2006 is \$6,850.

**Student Enrollment:**

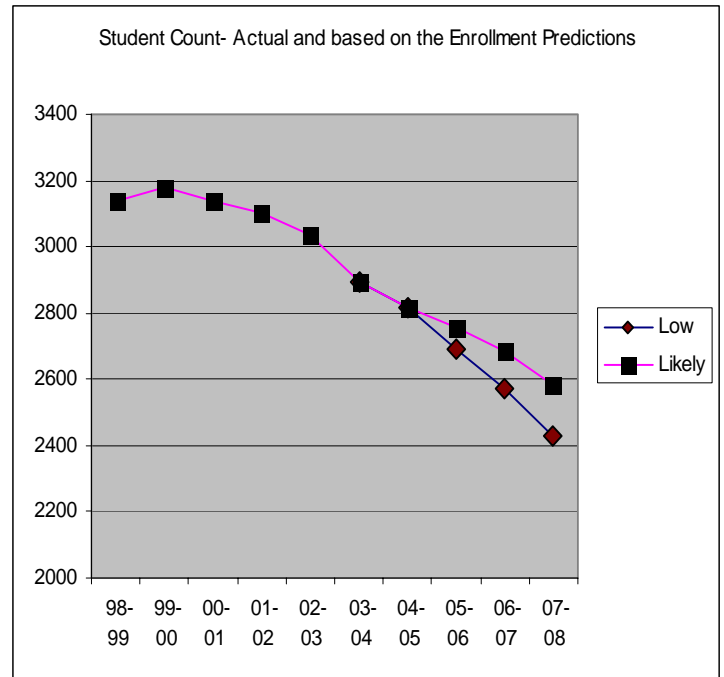
The District's student enrollment for the fall count of 2004-2005 was 2,814.24 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments and the actual foundation allowance for the past five years:

	<u>Enrollment</u>	<u>Change from Prior Year</u>	<u>Actual Foundation</u>	<u>Change from Prior Year</u>
2004 – 2005	2,814	(2.7%)	6,700	1.1%
2003 – 2004	2,893	(4.8%)	6,626	(0.4%)
2002 – 2003	3,039	(2.0%)	6,655	2.4%
2001 – 2002	3,101	(1.2%)	6,500	8.3%
2000 – 2001	3,138	(1.2%)	6,000	5.3%

Subsequent to year-end June 30, 2005, preliminary student enrollments for 2005-2006 indicate that enrollments will decrease 55 students from 2004-2005. In 2003-2004 and 2004-2005 the foundation allowance was \$6,700; however there was pro-ration reduction per student in midyear of \$45 in 2002-2003 and \$74 per student in 2003-2004. There was no pro-ration in 2004-2005.

Sault Schools Fall Enrolment Predictions

	Most	Low		Fall	Fall
Year	Likely	Prediction	Actual	Count	Count
98-99	-33	-92	-14	3,139	
99-00	7	-74	38	3,177	
00-01	-50	-120	-39	3,138	
01-02	-19	-85	-37	3,101	
02-03	-58	-112	-62	3,039	
03-04	-108	-167	-146	2,893	
04-05	-58	-114	-79	2,814	
05-06	-55	-123		2,759	2,691
06-07	-75	-121		2,684	2,570
07-08	-100	-140		2,584	2,430
3 yr Total	-230	-384			



3. Property Taxes levied for Debt Service:

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50% of the regular tax rate.

For 2004-2005, the District's debt millage levy was 2.5000 mills that generated a levy of \$1,022,874. As of June 30, 2005, \$12,755 of personal debt taxes was not paid to the District. The unpaid taxes represent 1.25% of the total levy.

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sault Ste. Marie Area Public Schools amends its budget periodically during the school year. For the fiscal year 2004-2005, the budget was amended in November 2004, March and June 2005. The June 2005 budget amendment was the final budget for the fiscal year. The Sault Ste. Marie Area Public Schools Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does not budget for capital outlays in the original budget.

Change from Original to Final Budget:

(in thousands)

General Fund Revenues - Original vs. Final Budget:

Total Revenues Original Budget	\$ 22,858
Total Revenues Final Budget	<u>23,860</u>
Increase in Budgeted Revenues	<u>\$ 1,002</u>

Some of the significant budget adjustments for the year include:

REVENUES:

Increase amount collected from USF Projects	\$11,826
Increase current tax levy	115,188
Increase Medicaid Outreach	78,917
Increase insurance refunds	13,950
State Aid: Adjusted for actual fall count	521,083
Increase Federal Special Education allocation	71,850
Increase Federal Impact Aid allocation	134,400
Increase ISD Special Education Funding	32,962
Increase FTL Laptop Computer Grant	657,000
Increase funding for state and federal grants	163,569

General Fund Expenditures - Original vs. Final Budget:

The District's budget for expenditures changed as follows during the year:

	(in thousands)	
Total Expenditures Original Budget		\$ 24,546
Total Expenditures Final Budget		<u>24,598</u>
Increase in Budgeted Expenditures		<u>\$ 52</u>

Some significant budget adjustments for the year include:

EXPENDITURES:**INSTRUCTION**

Increase instructional salaries	\$115,553
Decrease employee benefits	(117,212)
Decrease support salaries and benefits	(201,916)
Decrease sick leave pay	(101,640)
Decrease building admin. salaries and wages	(46,928)
Increase contracted services	63,700

ADMINISTRATION

Decrease salaries	(28,389)
Decrease benefits	(21,420)
Decrease legal services	(25,000)

CURRICULUM

Decrease testing materials	(17,500)
----------------------------	----------

OPERATION AND MAINTENANCE

Decrease salaries and benefits	(92,080)
Increase capital outlay	35,144

TRANSPORTATION

Increase salaries	22,920
Decrease benefits	(32,410)
Increase capital outlay (bus)	56,618

TECHNOLOGY

Decrease salaries and benefits	(12,890)
Decrease contracted repair	(19,520)
Increase software licenses and capital outlay	37,747

FEDERAL AND STATE GRANTS – increase	640,310
-------------------------------------	---------

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	Revenues Final <u>Budget</u>	Revenues Final <u>Actual</u>	<u>Difference</u>	<u>Variance</u>
2000 – 2001	22,889,234	22,819,079	(70,155)	(0.3%)
2001 – 2002	24,696,372	24,661,922	(34,450)	(0.1%)
2002 – 2003	24,765,343	24,625,328	(140,015)	(0.6%)
2003 – 2004	24,331,230	24,234,263	(96,967)	(0.4%)
2004 - 2005	23,859,813	23,581,804	(278,009)	(1.17%)

Some of the significant budget variances for the year include:

Delinquent Tax Collections	97,200	25,539	(71,661)	(73.7%)
Title I	653,779	537,598	(116,181)	(17.8%)
Bus Rental	32,000	70,832	38,832	121.3%
Medicaid Outreach	108,917	120,135	11,218	10.3%

General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	Expenditures Final <u>Budget</u>	Expenditures Final <u>Actual</u>	<u>Difference</u>	<u>Variance</u>
2000 – 2001	22,886,380	21,936,005	950,375	4.2%
2001 – 2002	24,520,102	23,842,225	677,877	2.8%
2002 – 2003	25,513,345	24,853,857	659,488	2.6%
2003 – 2004	24,978,894	24,459,195	519,699	2.1%
2004 - 2005	24,598,267	24,464,249	134,018	.54%

Some of the significant budget variances for the year include:

Certificated Staff Medical Ins.	2,196,888	2,385,777	(188,889)	(8.6%)
Special Education	2,385,205	2,566,304	(181,099)	(7.6%)
Legal Services	25,000	5,486	19,514	78.0%
Contracted Maintenance	148,000	108,375	39,625	26.8%
District Utilities	505,000	495,308	9,692	1.9%
Misc. Transportation Expense	17,000	4,181	12,819	75.4%
State and Federal Grants	2,720,653	2,628,256	92,397	3.4%

2005 – 2006 Budget

The Preliminary Budget for the 2005-06 Fiscal Year was adopted by the Board of Education on June 13, 2005. Several important factors were known as the budget was being drafted, others were projected with best estimates.

Impact on Revenues:

- Use of \$825,515 of Fund Equity to compensate for lost State Aid Revenue.
- State Aid foundation increase to \$6,850 per pupil.
- Decrease in enrollment projected at 55 students.
- Decrease in Federal and State grant revenues.
- Increase in revenue from Driver Education fees.
- Decrease contributions and insurance refunds.
- Decrease of Federal Impact Aid.

Impact on Expenditures:

- Close Bruce Township Elementary School.
- Negotiation of SEA (teacher's union) labor contract.
- Increase in health care costs: 12% for MESSA and 0% for USWA Blue Cross.
- Increase retirement rate from 14.87% to 16.34%.
- Reduce staffing due to declining enrollment: 3 Elementary Teachers, .6 Middle School Teachers, .6 High School Teachers, 1 Library Aide, 1 Maintenance staff, 1 Secretary, 1 Food Server, .5 Cook and 1 Elementary Computer Lab Aide.
- Resume full 180 day school year.
- Continued purchase of one new bus rather than two.
- Decrease in transfers to Athletics.
- Reduce Federal and State grant expenditures.
- Estimated 06 Loss:

Estimated 2005-2006 Budget:

2005/06 Revenues	\$ 23,083,100
2005/06 Expenditures	<u>(23,912,615)</u>
Excess Revenues Over Expenses	\$ (829,515)
July 1, 2005 Fund Balance	<u>2,813,469</u>
Estimated June 30, 2006 Fund Balance	<u><u>\$ 1,983,954</u></u>

Contacting the District's Financial Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office of the Sault Ste. Marie Area Public Schools at (906)635-6609.

Basic Financial Statements

**Statement of Net Assets
June 30, 2005**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,650,033
Due from other governmental units	3,298,416
Accounts receivable	59,834
Inventories	53,315
Prepaid expenses	43,969
Total current assets	<u>7,105,567</u>
Noncurrent Assets:	
Capital assets	25,140,251
Less: accumulated depreciation	<u>(9,176,783)</u>
Total noncurrent assets	<u>15,963,468</u>
Total assets	<u><u>\$ 23,069,035</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 42,788
Accrued salaries and withholding	3,126,933
Accrued interest	114,390
Deferred revenue	11,005
Due to other governmental units	89,222
Lease payable - due within one year	61,153
Assessment and Bonds payable - due within one year	<u>636,665</u>
Total current liabilities	<u>4,082,156</u>
Noncurrent Liabilities:	
Lease payable	60,787
Assessments and Bonds payable	10,844,930
Compensated absences payable	<u>247,500</u>
Total noncurrent liabilities	<u>11,153,217</u>
Total liabilities	<u>15,235,373</u>
Net Assets:	
Invested in capital assets, net of related debt	4,245,543
Restricted for debt service	796,387
Unrestricted	<u>2,791,732</u>
Total net assets	<u><u>\$ 7,833,662</u></u>

Sault Ste. Marie Area Public Schools

Statement of Activities Year Ended June 30, 2005

		Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
	Expenses			
Functions/Programs:				
Governmental Activities:				
Instruction and Instructional Services	\$ 16,890,697	\$ 413,684	\$ 3,684,971	\$ (12,792,042)
Support services	8,099,747	602,754	524,847	(6,972,146)
Community services	118,112	-	-	(118,112)
Interest on long-term debt	559,320	-	-	(559,320)
Other	161,321	500	-	(160,821)
Depreciation (Unallocated)	736,729	-	-	(736,729)
Total Governmental Activities	<u>\$ 26,565,926</u>	<u>\$ 1,016,938</u>	<u>\$ 4,209,818</u>	\$ (21,339,170)
General Revenues:				
Taxes				
Property taxes, levied for general operations				3,233,819
Property taxes, levied for debt service				1,006,950
State of Michigan aid, unrestricted				15,465,620
Federal impact aid				674,410
Miscellaneous				702,975
Interest and investment earnings				64,398
Total general revenues				<u>21,148,172</u>
Change in Net Assets				(190,998)
Net assets:				
Beginning of year				<u>8,024,660</u>
End of year				<u>\$ 7,833,662</u>

Sault Ste. Marie Area Public Schools

Balance Sheet Governmental funds June 30, 2005

	General	2005 Bond Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 2,655,325	\$ 522,621	\$ 472,087	\$ 3,650,033
Due from other governmental units	3,298,416	-	-	3,298,416
Due from other funds	22,505	-	40,676	63,181
Inventories	31,898	-	21,417	53,315
Accounts receivable	58,191	-	1,643	59,834
Prepaid expenses	43,969	-	-	43,969
Total Assets	<u>\$ 6,110,304</u>	<u>\$ 522,621</u>	<u>\$ 535,823</u>	<u>\$ 7,168,748</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Due to other funds	39,742	-	23,439	63,181
Accounts payable	40,938	-	1,850	42,788
Accrued salaries and withholdings	3,126,933	-	-	3,126,933
Deferred revenue	-	-	11,005	11,005
Due to other governmental units	89,222	-	-	89,222
Total liabilities	<u>3,296,835</u>	<u>-</u>	<u>36,294</u>	<u>3,333,129</u>
Fund Balances:				
Reserved for debt service	-	522,621	273,766	796,387
Unreserved and undesignated	2,780,934	-	-	2,780,934
Designated, athletics	-	-	20,363	20,363
Designated, food services	-	-	205,107	205,107
Designated, store	32,535	-	-	32,535
Designated, capital projects	-	-	293	293
Total fund balances	<u>2,813,469</u>	<u>522,621</u>	<u>499,529</u>	<u>3,835,619</u>
Total liabilities and fund balances	<u>\$ 6,110,304</u>	<u>\$ 522,621</u>	<u>\$ 535,823</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	25,140,251	
Accumulated depreciation is	(9,176,783)	
		15,963,468
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Leases, assessments and bonds payable		(11,603,535)
Compensated absences		(247,500)
Accrued interest is not included as a liability in governmental funds		(114,390)
Net assets of governmental activities		<u>\$ 7,833,662</u>

Sault Ste. Marie Area Public Schools

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2005

	General	2005 Bond Debt Service	Other Nonmajor Governmental Funds	Totals
REVENUES:				
Local sources	\$ 4,118,250	\$ -	\$ 1,610,204	\$ 5,728,454
State sources	16,318,150	-	80,930	16,399,080
Federal sources	1,800,064	-	444,017	2,244,081
Interdistrict sources	1,294,460	-	-	1,294,460
Interest on deposits	50,880	-	13,518	64,398
Total Revenues	23,581,804	-	2,148,669	25,730,473
EXPENDITURES:				
Current:				
Instruction	14,573,978	-	-	14,573,978
Instructional services	2,499,927	-	-	2,499,927
Supporting services	6,758,750	-	1,395,953	8,154,703
Community services	118,112	-	-	118,112
Debt service	129,345	-	1,022,780	1,152,125
Miscellaneous	-	-	112,684	112,684
Capital outlay	-	-	3,398	3,398
Total expenditures	24,080,112	-	2,534,815	26,614,927
Excess of Revenues (Expenditures)	(498,308)	-	(386,146)	(884,454)
OTHER FINANCING SOURCES (USES):				
Bond Proceeds-Refunding Bonds	-	-	7,780,000	7,780,000
Bond Premium	-	-	594,276	594,276
Accrued Interest on Bond Proceeds	-	-	50,179	50,179
Payment to Refunded Bond Escrow	-	-	(7,900,000)	(7,900,000)
Other	(48,637)	-	-	(48,637)
Operating transfers in	-	522,621	660,500	1,183,121
Operating transfers out	(335,500)	-	(847,621)	(1,183,121)
Total other financing sources (uses)	(384,137)	522,621	337,334	475,818
Net Changes in Fund Balances	(882,445)	522,621	(48,812)	(408,636)
Fund Balances - Beginning of year	3,695,914	-	548,341	4,244,255
Fund Balances - End of year	\$ 2,813,469	\$ 522,621	\$ 499,529	\$ 3,835,619

Sault Ste. Marie Area Public Schools

Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances of Governmental Funds To the Statement of Activities Year Ended June 30, 2005

Net Changes in fund balances - total governmental funds \$ (408,636)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	218,642	
Current Depreciation Expense	<u>(736,729)</u>	(518,087)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:

Bond principal	8,478,486
Lease principal	54,956

Receipt of bond proceeds is an other financing source in the governmental funds but is recognized as an increase in liability on the statement of net assets. (7,780,000)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(32,036)	
Accrued interest on bonds	<u>14,319</u>	
		<u>(17,717)</u>

Changes in net assets of governmental activities	<u>\$ (190,998)</u>
--	---------------------

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	<u>Agency</u>	<u>Private Purpose Trusts</u>
ASSETS:		
Cash and Cash Equivalents	<u>\$ 281,200</u>	<u>\$ 26,906</u>
LIABILITIES:		
Due to Clubs and Organizations	<u>\$ 281,200</u>	<u>-</u>
FUND EQUITY:		
Net Assets held in Trust for Other Purposes		<u>\$ 26,906</u>

Sault Ste. Marie Area Public Schools

Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2005

ADDITIONS:

Contributions	\$ 16,870
Interest on deposits	405
Total Additions	<u>17,275</u>

DEDUCTIONS:

Scholarship Payments	<u>17,043</u>
Total Deductions	<u>17,043</u>

Net Increase (Decrease)	<u>232</u>
--------------------------------	------------

Held in Trust for Other Purposes:

NET ASSETS - Beginning of year	<u>26,674</u>
--------------------------------	---------------

NET ASSETS - End of year	<u><u>\$ 26,906</u></u>
---------------------------------	-------------------------

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Sault Ste. Marie Area Public Schools conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

Basic Financial Statements – Government-wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The government-wide financial statements (i.e., the statement of net assets and the statements of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

Note 1 - Summary of Significant Accounting Policies (Continued)

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements, the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Funds – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

2005 Debt Service Fund – This fund accounts for the interest payments of the 2005 Advance Refunding Debt until 2009.

Additionally, the School reports the following funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Funds – The Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Capital Project Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Scholarship Funds – The District maintains scholarship funds for future beneficiaries.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental wide statement uses the economic resources measurement focus.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Note 1 - Summary of Significant Accounting Policies (Continued)**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Sault Ste. Marie Area Public Schools taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes. Interest accrues effective August 1st and becomes delinquent the following March 1st.

The tax rates for the year ended June 30, 2005, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	17.9604 per \$1,000 taxable value (Non-Homestead Property Only)
Debt – 1999 Bond Issue	2.5000 per \$1,000 taxable value (Homestead and Non-Homestead Property)

Note 1 - Summary of Significant Accounting Policies (Continued)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets, which include land, buildings, furniture, and equipment are reported in the governmental activities column in the school-wide financial statements. Capital assets are defined by the school as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20-50 years
Buildings	30-50 years
Building Improvements	5-20 years
Equipment	5-20 years
Buses	5-10 years
Vehicles	5-10 years
Furniture	5-20 years
Software	2-5 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

Compensated Absences – The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The School District formally adopted General Fund and Special Revenue Funds budgets by function for the fiscal year ended June 30, 2005. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Budget Violations – Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction	\$ 14,520,815	\$ 14,573,978	\$ (53,163)

Note 3 - Deposits and Investments
Deposits

At year-end, the School's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 1,659,459	\$ 308,106	\$ 1,967,565
Investments-Unrestricted	1,467,953	-	1,467,953
Investments-Restricted	<u>522,621</u>	<u>-</u>	<u>522,621</u>
Total	<u>\$ 3,650,033</u>	<u>\$ 308,106</u>	<u>\$ 3,958,139</u>

The School's deposits are deposited in three local financial institutions. Deposits are carried at cost.

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 1,967,565
Investments in Mutual Funds	1,467,953
Investments in U.S. Treasury Bills	<u>522,621</u>
	<u>\$ 3,958,139</u>

The bank balance of the primary government's deposits is \$2,418,207, of which \$275,824, 11.41%, is covered by federal depository insurance.

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The School's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The School's policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year-end, \$2,142,383 of the School's bank balance of \$2,418,207 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

Note 3 - Deposits and Investments (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Districts deposits are in accordance with state statutes.

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Nonrisk-Categorized*		
Mutual Funds:		
MICMS	\$ 6,205	\$ 6,205
MIMAX	1,461,748	1,461,748
Treasury Bills	<u>522,621</u>	<u>522,621</u>
Total Investments	<u>\$ 1,990,574</u>	<u>\$ 1,990,574</u>

The School District has a restricted cash balance of \$522,621 invested in U.S. Treasury Bills for payment of 1999 bonds and defeasement. (See Note 5)

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	Balance July 1, 2004	Additions	Adjustments/ Deductions	Balance June 30, 2005
Capital Assets Not Depreciated:				
Land	\$ 70,722	\$ -	\$ -	\$ 70,722
Land Improvements	1,247,821	-	-	1,247,821
Construction in Progress	-	46,956	-	46,956
Total Assets Not Depreciated	1,318,543	46,956	-	1,365,499
Capital Assets Depreciated:				
Land Improvements	831,880	-	-	831,880
Buildings	19,814,295	-	-	19,814,295
Building Improvements	338,574	23,484	-	362,058
Equipment	721,130	33,584	-	754,714
Buses	1,173,599	114,618	-	1,288,217
Vehicles	116,889	-	-	116,889
Furniture	395,292	-	-	395,292
Software	211,407	-	-	211,407
Total Assets Depreciated	23,603,066	171,686	-	23,774,752
Less Accumulated Depreciation for:				
Land Improvements	(309,596)	(103,985)	-	(413,581)
Buildings	(6,487,630)	(368,375)	-	(6,856,005)
Building Improvements	(116,323)	(31,480)	-	(147,803)
Equipment	(329,322)	(62,471)	-	(391,793)
Buses	(899,265)	(108,147)	-	(1,007,412)
Vehicles	(75,252)	(12,247)	-	(87,499)
Furniture	(53,570)	(20,433)	-	(74,003)
Software	(169,096)	(29,591)	-	(198,687)
Subtotal	(8,440,054)	(736,729)	-	(9,176,783)
Net Capital Assets Depreciated	15,163,012	(565,043)	-	14,597,969
Total Net Capital Assets	\$ 16,481,555	\$ (518,087)	\$ -	\$ 15,963,468

Depreciation for the fiscal year ended June 30, 2005 amounted to \$736,729. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Long-Term Debt

The following is a summary of changes in the Long-Term Debt for the year ending June 30, 2005:

	<u>Assessments</u>	<u>Durant Bonds</u>	<u>General Obligation Bonds</u>	<u>Accrued Employee Benefits</u>	<u>Total</u>
Balance, July 1, 2004	\$ 17,338	\$ 439,352	\$ 11,723,391	\$ 215,464	\$ 12,395,545
Debt Additions	-	-	7,780,000	32,036	7,812,036
Debt Payments	(5,910)	-	(8,472,576)	-	(8,478,486)
Balance, June 30, 2005	<u>\$ 11,428</u>	<u>\$ 439,352</u>	<u>\$ 11,030,815</u>	<u>\$ 247,500</u>	<u>\$ 11,729,095</u>

At June 30, 2005, the School District's long-term debt consisted of the following:

		<u>Due Within One Year</u>
<u>General Obligation – Unlimited Tax Bonds</u>		
2005 Advance Refunding Bonds used to partially pay off the 1999 School Building and Site bonds. Annual installments will begin in 2009 of \$620,000 to \$945,000 through 2019, with interest varying from 4% to 5%.	\$ 7,780,000	\$ -
<u>General Obligation – Unlimited Tax Bonds</u>		
1999 School Building and Site bonds due in annual installments of \$230,000 to \$995,000 through 2009 with interest varying from 4.50% to 5.375%.	2,150,000	495,000
<u>Series 1998 Durant Bonds</u>		
Sault Ste. Marie Area Public Schools elected to bond and receive a lump sum amount of \$687,704. Annual installments are due in varying amounts between \$70,491 and \$30,323 through 2013, including interest at 4.76% per annum.	439,352	33,287
<u>General Obligation – Qualified Zone Academy Bonds</u>		
2001 School Improvement Bonds due in annual installments of \$83,000 through 2013 with interest varying per annum.	582,635	65,521
<u>General Obligation – Qualified Zone Academy Bonds</u>		
2002 School Improvement Bonds due in annual installments of \$42,857 through 2017.	518,180	42,857
<u>City Special Assessment</u>		
School properties for road improvements due annually beginning April, 1999 with interest at 6.25%.	11,428	5,870

Note 5 - Long-Term Debt (Continued)
Accrued Employee Benefits

Early retirement incentive payable	\$ 18,140
Sick leave payable	192,249
Vacation leave payable	<u>37,111</u>

Total Accrued Employee Benefits	<u>247,500</u>	<u>-</u>
---------------------------------	----------------	----------

TOTAL LONG-TERM DEBT	<u>\$ 11,729,095</u>	<u>\$ 642,535</u>
----------------------	----------------------	-------------------

	1998		1999		2001	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 33,287	\$ 15,005	\$ 495,000	\$ 109,568	\$ 65,521	\$ 17,479
2007	159,067	68,821	525,000	84,818	67,487	15,513
2008	36,533	11,760	550,000	57,912	69,511	13,489
2009	38,273	10,021	580,000	29,726	71,597	11,403
2010	40,093	8,199	-	-	73,744	9,256
2011	42,003	6,290	-	-	75,957	7,043
2012	44,001	4,290	-	-	78,235	4,765
2013	46,095	2,195	-	-	80,583	2,417
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2011-2015	<u>132,099</u>	<u>12,775</u>	<u>-</u>	<u>-</u>	<u>234,775</u>	<u>14,225</u>
Total	<u>\$ 439,352</u>	<u>\$ 126,581</u>	<u>\$ 2,150,000</u>	<u>\$ 282,024</u>	<u>\$ 582,635</u>	<u>\$ 81,365</u>

	2002		2005	
	Principal	Interest	Principal	Interest
2006	\$ 42,857	\$ -	\$ -	\$ 412,358
2007	42,857	-	-	353,450
2008	42,857	-	-	353,450
2009	42,857	-	-	353,450
2010	42,857	-	620,000	353,450
2011	42,857	-	650,000	322,450
2012	42,857	-	685,000	289,950
2013	42,857	-	720,000	255,700
2014	42,858	-	755,000	219,700
2015	<u>42,857</u>	<u>-</u>	<u>795,000</u>	<u>181,950</u>
2011-2015	<u>214,286</u>	<u>-</u>	<u>3,605,000</u>	<u>1,269,750</u>

Note 5 - Long-Term Debt (Continued)

	2002		2005	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	42,857	-	835,000	142,200
2017	46,752	-	870,000	108,800
2018	-	-	905,000	74,000
2019	-	-	<u>945,000</u>	<u>37,800</u>
2016-2019	<u>89,609</u>	<u>-</u>	<u>3,555,000</u>	<u>362,800</u>
Total	<u>\$ 518,180</u>	<u>\$ -</u>	<u>\$ 7,780,000</u>	<u>\$ 3,458,708</u>

The estimated annual principal and interest requirements to amortize other debt outstanding as of June 30, 2005 are as follows:

	<u>City Special Street Assessments</u>
2006	\$ 5,870
2007	<u>5,558</u>
Total	<u>\$ 11,428</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2005.

On March 1, 2005, the School issued general obligation bonds of \$7,780,000 (par amount) with an interest rate of 4% to 5% to partially advance refund term bonds with an interest rate of 5% to 5.375% and a par value of \$7,900,000. The term bonds mature May 1, 2019, and are callable on May 1, 2009. The general obligation bonds were issued at a premium and, after paying issuance costs of \$58,777, bond insurance of \$14,610, and underwriter's discount of \$38,900, the net proceeds were \$8,320,766. The net proceeds from the issuance of the general obligation bonds were to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on May 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the refunded portion of the term bonds were removed from the School's government-wide financial statements.

As a result of the advance refunding, the School reduced its total debt service requirements by \$734,620, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$534,134.

Note 6 - Pension

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 489019-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2005, 2004, and 2003 were \$1,998,497, \$1,880,440, and \$1,739,441.

Post Employment Benefits – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

The School District contributes to a 401(a) Special Pay Plan through Bencor National Plan. The Plan became effective July 1, 2004 through union negotiations. The Plan is available to all the United Steelworkers Union Members eligible for health, vision, and dental insurance. Each Union Contract has an expenditure "cap" on what the School will contribute toward insurance. Plan members are not required to contribute to the plan and the School's contribution is to be determined each year. The contribution is determined each year based on the difference between the actual cost of insurance and the "capped" amount. This difference is then divided among the eligible participants. This amount will be contributed toward an employee's individual 401(a) retirement plan.

The School's contribution for the year ended June 30, 2005 was \$348,199. The contributions will continue to be an expenditure of the School until new Union Contracts are negotiated.

Note 7 - Interfund Receivable and Payables, and Transfers

The School District reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS		
	General Fund	All Others	Totals
General Fund	\$ -	\$ 39,742	\$ 39,742
All Others	<u>22,505</u>	<u>934</u>	<u>23,439</u>
Total	<u>\$ 22,505</u>	<u>\$ 40,676</u>	<u>\$ 63,181</u>

Interfund Transfers:

TRANSFERS IN	TRANSFERS OUT		
	General Fund	Non-major	Totals
2005 Bond Debt Service	\$ -	\$ 522,621	\$ 522,621
Nonmajor	<u>335,500</u>	<u>325,000</u>	<u>660,500</u>
Total	<u>\$ 335,500</u>	<u>\$ 847,621</u>	<u>\$ 1,183,121</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 8 - Risk Management

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Accrued Employee Benefits

The district offered its teachers and administrative personnel early retirement incentives. Payments under these programs will be made through the year 2005. A liability for amounts payable in years subsequent to the year ended June 30, 2005 of \$18,140 was recorded.

Administrators who have accumulated in excess of 140 unused sick days will receive, upon retirement, a one-time payment for the number of unused sick days accumulated during their last eleven years of employment based on .28% of current base salary for each unused sick day earned during the last eleven years.

Teachers who have accumulated in excess of 150 unused sick days will receive, upon retirement, a one-time payment for 100 sick days based on .28% of current base salary.

Secretarial, transportation, custodial, cafeteria, and paraprofessional employees who have accumulated in excess of 100 unused sick days will receive upon retirement, a one-time payment for unused sick days accumulated during their last six years of employment. This benefit is payable at rates ranging from \$10 to \$50 based on hours worked per day.

Note 10 - Commitments and ContingenciesGrants

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2005.

Note 10 - Commitments and Contingencies (Continued)
Letter of Credit

On May 22, 2000, the School District entered into an Irrevocable Standby Letter of Credit. The letter of credit in the amount of \$50,000 is to be held by a local financial institution until construction of the Wetland Mitigation Project, file #00-17-0021-P is completed and approved by the Michigan Department of Environmental Quality, (MDEQ) at which time 50% shall be returned at the end of the five (5) year monitoring period when the wetland is determined to be functional by the MDEQ.

Note 11 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$3,298,416 in revenues due from state sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2005 state aid, which was not received until after year-end due to a change in the state aid payment schedule.

Note 12 - Leases

The District has executed a noncancelable operating lease for copier equipment as follows:

Interest Rate	4.079%
Cost	\$ 242,518
Term	4 years
Monthly Payment	\$ 5,096
	<u>Total</u>
	<u>Payments</u>
2006	61,152
2007	61,152
2008	<u>5,096</u>
	127,400
Amount representing interest	<u>(5,460)</u>
Minimum Lease Value	<u>\$ 121,940</u>

Note 13 - Fund Equity Designations

Fund equity designations are as follows:

General Fund	\$ 32,535	Designated for School Store
Debt Service	796,387	Reserved for Bond Activity
Special Revenue	225,470	Designated for Fund Purpose
Capital Project	293	Designated for 1999 Building and Site

Note 14 - Receivables

Receivables as of year-end for the School's individual major and nonmajor funds are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 58,191	\$ 1,643	\$ 59,834
Due From Others	<u>3,298,416</u>	<u>-</u>	<u>3,298,416</u>
Net Receivables	<u>\$ 3,356,607</u>	<u>\$ 1,643</u>	<u>\$ 3,358,250</u>

Required Supplemental Information

Sault Ste. Marie Area Public Schools

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Local sources	\$ 3,740,220	\$ 3,952,547	\$ 4,169,130	\$ 216,583
State sources	16,650,834	16,237,225	16,318,150	80,925
Federal sources	2,194,979	3,272,228	1,800,064	(1,472,164)
Interdistrict sources	<u>272,000</u>	<u>397,813</u>	<u>1,294,460</u>	<u>896,647</u>
Total revenues	<u>22,858,033</u>	<u>23,859,813</u>	<u>23,581,804</u>	<u>(278,009)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	10,457,567	10,342,521	10,357,983	(15,462)
Added Needs	4,195,106	4,178,294	4,215,995	(37,701)
Instructional services:				
Pupil services and staff	2,541,411	2,558,926	2,499,927	58,999
Supporting services:				
School administration	3,072,034	3,277,011	3,261,966	15,045
Maintenance and transportation	3,670,710	3,613,044	3,496,784	116,260
Community services	107,220	112,171	118,112	(5,941)
Debt service	126,000	122,000	129,345	(7,345)
Other Uses –				
Operating transfers	335,500	335,500	335,500	-
Other	<u>40,000</u>	<u>58,800</u>	<u>48,637</u>	<u>10,163</u>
Total Expenditures	<u>24,545,548</u>	<u>24,598,267</u>	<u>24,464,249</u>	<u>134,018</u>
Excess (Deficiency) of				
Revenues over Expenditures				
And Other Uses	<u>\$ (1,687,515)</u>	<u>\$ (738,454)</u>	<u>(882,445)</u>	<u>\$ (143,991)</u>
Budgetary fund balance – July 1, 2004			<u>3,695,914</u>	
Budgetary fund balance – June 30, 2005			<u>\$ 2,813,469</u>	

Other Supplemental Information

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Revenues
Year Ended June 30, 2005**

	<u>2005 Actual</u>
REVENUES:	
Local Sources	
Current property taxes	\$ 3,208,280
Delinquent fees and other taxes	31,291
Gaming compact	94,604
Earnings on investments	50,880
Charges for services	413,684
Other local revenues	<u>370,391</u>
Total Local Sources	<u>4,169,130</u>
State Sources	
Foundation grant	15,465,620
Durant settlement	68,770
At risk categorical	528,486
Drivers education	16,124
Vocational education	198,730
Other	<u>40,420</u>
Total State Sources	<u>16,318,150</u>
Federal Sources	
Title I	603,707
Impact Aid	674,410
Other	<u>521,947</u>
Total Federal Sources	<u>1,800,064</u>
Interdistrict Sources	
Special education	419,628
Carl Perkins VEA	110,083
21 st century grants	80,823
Preschool incentive	26,926
Freedom to Learn	<u>657,000</u>
Total Interdistrict Sources	<u>1,294,460</u>
Total Revenues	<u><u>\$ 23,581,804</u></u>

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
EXPENDITURES:		
Instruction		
Basic Programs:		
Elementary:		
Salaries	\$ 2,912,291	
Benefits	1,303,749	
Purchased services	2,175	
Supplies	71,800	
Capital outlay	<u>3,840</u>	
Total Elementary		4,293,855
 Middle School		
Salaries	1,769,736	
Benefits	828,768	
Purchased services	1,220	
Supplies	27,689	
Capital outlay	<u>7,280</u>	
Total Middle School		2,634,693
 High School		
Salaries	2,215,919	
Benefits	1,044,780	
Purchased services	3,249	
Supplies	142,161	
Capital outlay	5,908	
Miscellaneous	<u>17,418</u>	
Total High School		3,429,435
 Added Needs:		
Special Education		
Salaries	1,304,197	
Benefits	752,700	
Purchased services	5,099	
Supplies	10,829	
Miscellaneous	<u>105</u>	
Total Special Education		2,072,930

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
Instruction (Continued)		
Vocation Education		
Salaries	740,899	
Benefits	345,810	
Purchased services	27,234	
Supplies	117,200	
Capital outlay	9,268	
Miscellaneous	<u>39</u>	
Total Vocation Education		1,240,450
Compensatory Education		
Salaries	524,554	
Benefits	273,382	
Purchased services	7,750	
Supplies	96,877	
Miscellaneous	<u>52</u>	
Total Compensatory Education		<u>902,615</u>
Total Instruction		<u>14,573,978</u>
Instructional Services		
Pupil Services:		
Attendance		
Salaries	106,908	
Benefits	<u>60,023</u>	
Total Attendance		166,931
Guidance		
Salaries	315,330	
Benefits	142,460	
Purchased Services	159	
Supplies	2,557	
Miscellaneous	<u>50</u>	
Total Guidance		460,556

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
Instructional Services (Continued)		
Pupil Services:		
Health Services		
Benefits	44	
Purchased services	145,898	
Supplies	2,526	
Miscellaneous	<u>1,149</u>	
Total Health Services		149,617
Speech Therapy		
Salaries	119,594	
Benefits	54,682	
Purchased services	72,560	
Supplies	<u>280</u>	
Total Speech Therapy		247,116
Social Worker		
Salaries	104,357	
Benefits	<u>66,223</u>	
Total Social Worker		170,580
Teacher Consultant		
Benefits	<u>87</u>	
Total Teacher Consultant		87
Native Student Advisor		
Salaries	161,142	
Benefits	50,853	
Purchased services	34,226	
Miscellaneous	<u>28,547</u>	
Total Native Advisor		274,768

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
Instructional Services (Continued)		
Pupil Services:		
Staff Development		
Salaries	71,350	
Benefits	25,970	
Purchased services	138,050	
Supplies	3,004	
Miscellaneous	<u>1,128</u>	
Total Staff Development		239,502
 Library		
Salaries	204,423	
Benefits	147,349	
Purchased services	4,526	
Supplies	<u>10,044</u>	
Total Librarian		366,342
 Supervision		
Salaries	265,115	
Benefits	122,599	
Purchased services	7,059	
Supplies	18,195	
Capital Outlay	7,822	
Miscellaneous	<u>3,638</u>	
Total Supervision		<u>424,428</u>
 Total Instructional Services		<u>2,499,927</u>
 Supporting Services		
School Administration:		
Board of Education		
Purchased services	17,248	
Supplies	2,003	
Miscellaneous	<u>14,114</u>	
Total Board of Education		33,365

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
Supporting Services (Continued)		
School Administration:		
Superintendent Administration		
Salaries	133,752	
Benefits	47,224	
Purchased services	32,687	
Supplies	438	
Miscellaneous	<u>9,162</u>	
Total Superintendent		223,263
 Office of the Principal		
Salaries	886,570	
Benefits	461,249	
Purchased services	749	
Supplies	29,259	
Capital outlay	1,584	
Miscellaneous	<u>11,963</u>	
Total Principal		1,391,374
 Information Services		
Salaries	148,597	
Benefits	84,128	
Supplies	6,739	
Miscellaneous	<u>10,254</u>	
Total Information Services		249,718
 Operation and Maintenance of Plant		
Salaries	756,428	
Benefits	477,965	
Purchased services	290,525	
Supplies	730,460	
Capital outlay	17,234	
Miscellaneous	<u>111,734</u>	
Total Maintenance		2,384,346

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005****Supporting Services (Continued)**

School Administration:

Pupil Transportation

Salaries	525,597	
Benefits	329,640	
Purchased services	27,735	
Supplies	105,325	
Capital Outlay	114,618	
Miscellaneous	<u>9,523</u>	
Total Transportation		1,112,438

Technology

Salaries	182,631	
Benefits	78,451	
Purchased services	110,397	
Supplies	16,806	
Capital outlay	<u>719,127</u>	
Total Technology		1,107,412

Personnel

Salaries	154,136	
Benefits	69,491	
Purchased services	14,376	
Supplies	4,403	
Miscellaneous	<u>6,479</u>	
Total Personnel		248,885

Other School Administration	<u>7,949</u>
-----------------------------	--------------

Total Supporting Services	<u>6,758,750</u>
----------------------------------	-------------------------

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2005**

	<u>2005 Actual</u>	
Community Services		
Community Recreation		
Salaries	14,351	
Benefits	2,607	
Purchased Services	3,665	
Supplies	61,793	
Miscellaneous	<u>3,867</u>	
Total Community Recreation		<u>86,283</u>
 Day Care		
Salaries	2,974	
Benefits	672	
Purchased Services	22,246	
Supplies	<u>3,988</u>	
Total Day Care		<u>29,880</u>
 Other Community Services		<u>1,949</u>
 Total Community Services		<u>118,112</u>
 Debt Service		<u>129,345</u>
 Transfers and Other Uses		
Other	48,637	
Operating transfers out	<u>335,500</u>	
 Total transfers and other uses		<u>384,137</u>
 Total General Fund expenditures And other uses		<u>\$ 24,464,249</u>

Sault Ste. Marie Area Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Nonmajor Special Revenue Funds		Nonmajor Debt Service Funds			Nonmajor Capital Project Funds						Total Nonmajor Governmental Funds
	Athletic	Food Service	1968 Bond Debt Service	1973 Bond Debt Service	1999 Bond Debt Service	2001 QZAB	Building and Site	1999 Building and Site	2001 Building and Site	Admin Building	Malcom QZAB	
ASSETS:												
Cash and cash equivalents	\$ -	\$ 197,238	\$ 13,121	\$ 10,885	\$ 250,550	\$ -	\$ -	\$ 293	\$ -	\$ -	\$ -	\$ 472,087
Accounts receivable	1,643	-	-	-	-	-	-	-	-	-	-	1,643
Inventory	-	21,417	-	-	-	-	-	-	-	-	-	21,417
Due from other funds	20,570	19,172	-	934	-	-	-	-	-	-	-	40,676
TOTAL ASSETS	<u>22,213</u>	<u>237,827</u>	<u>13,121</u>	<u>11,819</u>	<u>250,550</u>	<u>-</u>	<u>-</u>	<u>293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>535,823</u>
LIABILITIES:												
Due to other funds	-	21,715	-	-	1,724	-	-	-	-	-	-	23,439
Accounts payable	1,850	-	-	-	-	-	-	-	-	-	-	1,850
Deferred revenue	-	11,005	-	-	-	-	-	-	-	-	-	11,005
TOTAL LIABILITIES	<u>1,850</u>	<u>32,720</u>	<u>-</u>	<u>-</u>	<u>1,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,294</u>
FUND EQUITY:												
Fund Balance:												
Designated	20,363	205,107	13,121	11,819	248,826	-	-	293	-	-	-	499,529
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 22,213</u>	<u>\$ 237,827</u>	<u>\$ 13,121</u>	<u>\$ 11,819</u>	<u>\$ 250,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,823</u>

Sault Ste. Marie Area Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2005

	Nonmajor Special Revenue Funds		Nonmajor Debt Service Funds			Nonmajor Capital Projects Funds						Total Nonmajor Governmental Funds
	Athletic	Food Service	1968 Bond Debt Service	1973 Bond Debt Service	1999 Bond Debt Service	2001 QZAB	Building and Site	1999 Building and Site	2001 Building and Site	Admin Building	Malcom QZAB	
REVENUES:												
Interest on deposits	\$ -	\$ 3,649	\$ 118	\$ 98	\$ 9,653	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,518
Local Sources:												
Taxes	-	-	-	-	1,006,950	-	-	-	-	-	-	1,006,950
Other	97,785	504,969	-	-	-	-	500	-	-	-	-	603,254
State Sources	-	80,930	-	-	-	-	-	-	-	-	-	80,930
Federal Sources	-	444,017	-	-	-	-	-	-	-	-	-	444,017
TOTAL REVENUES	97,785	1,033,565	118	98	1,016,603	-	500	-	-	-	-	2,148,669
EXPENDITURES:												
Athletic Activities	412,086	-	-	-	-	-	-	-	-	-	-	412,086
Food Services	-	983,867	-	-	-	-	-	-	-	-	-	983,867
Debt Service:												
Principal	-	-	-	-	470,000	-	-	-	-	-	-	470,000
Interest and Fees	-	-	-	-	552,780	-	-	-	-	-	-	552,780
Miscellaneous	-	-	-	-	112,684	-	-	-	-	-	-	112,684
Capital Outlay	836	-	-	-	-	-	1,539	1,023	-	-	-	3,398
TOTAL EXPENDITURES	412,922	983,867	-	-	1,135,464	-	1,539	1,023	-	-	-	2,534,815
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(315,137)	49,698	118	98	(118,861)	-	(1,039)	(1,023)	-	-	-	(386,146)
OTHER FINANCING SOURCES:												
Bond Proceeds	-	-	-	-	7,780,000	-	-	-	-	-	-	7,780,000
Bond Premium	-	-	-	-	594,276	-	-	-	-	-	-	594,276
Accrued Interest on Bond Proceeds	-	-	-	-	50,179	-	-	-	-	-	-	50,179
Payments on Refunded Bond Escrow	-	-	-	-	(7,900,000)	-	-	-	-	-	-	(7,900,000)
Operating Transfers In	335,500	-	-	-	325,000	-	-	-	-	-	-	660,500
Operating Transfers Out	-	-	-	-	(847,621)	-	-	-	-	-	-	(847,621)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	20,363	49,698	118	98	(117,027)	-	(1,039)	(1,023)	-	-	-	(98,991)
FUND BALANCES, JULY 1	-	155,409	13,003	11,721	365,853	-	1,039	1,316	-	-	-	548,341
FUND BALANCES, JUNE 30	\$ 20,363	\$ 205,107	\$ 13,121	\$ 11,819	\$ 248,826	\$ -	\$ -	\$ 293	\$ -	\$ -	\$ -	\$ 499,529

Sault Ste. Marie Area Public Schools**School Activity (Agency) Fund
Statement of Changes in Assets and Liabilities - Summary
Year Ended June 30, 2005**

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance June 30, 2005</u>
ASSETS:				
Cash and equivalents	<u>\$ 276,155</u>	<u>\$ 855,847</u>	<u>\$ 850,802</u>	<u>\$ 281,200</u>
LIABILITIES:				
Due to Clubs and Organizations:				
HIGH SCHOOL	129,149	458,501	437,969	149,681
MIDDLE SCHOOL	108,339	202,622	212,289	98,672
BRUCE TOWNSHIP SCHOOL	12,711	40,383	47,723	5,371
LINCOLN SCHOOL	10,063	62,617	64,749	7,931
SOO TOWNSHIP SCHOOL	7,133	40,172	39,700	7,605
WASHINGTON SCHOOL	8,537	43,285	42,991	8,831
ALTERNATIVE HIGH SCHOOL	<u>223</u>	<u>8,267</u>	<u>5,381</u>	<u>3,109</u>
 TOTAL LIABILITIES	<u>\$ 276,155</u>	<u>\$ 855,847</u>	<u>\$ 850,802</u>	<u>\$ 281,200</u>

Sault Ste. Marie Area Public School

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
ASSETS:				
Cash and equivalents	\$ 276,155	\$ 855,847	\$ 850,802	\$ 281,200
LIABILITIES:				
Due to Clubs and Organizations:				
HIGH SCHOOL				
Administration:				
Driver Education	-	44,340	44,410	(70)
Health	-	500	-	500
Advanced placement	766	45	480	331
Activity Fee Donations	-	5,410	160	5,250
Activity Fee	-	36,964	35,215	1,749
Technology Fines	-	35	-	35
TMI	292	317	607	2
Book deposits	16,562	3,067	3,219	16,410
Chipley fund	233	0	156	77
Pop Machine	10,709	16,289	25,457	1,541
Parking Fees	-	1,206	-	1,206
General	11,850	18,634	28,839	1,645
I.D. cards	936	0	936	-
Library fines	1,535	471	645	1,361
Staff Remembrance	68	0	-	68
Fines/obligations	1,223	2,350	214	3,359
Woods supplies	2,060	2,433	3,962	531
Total Administration	46,234	132,061	144,300	33,995
Athletics:				
Boys basketball	293	6,667	5,114	1,846
Cheerleaders	341	-	-	341
Cross country	1,652	6,323	7,218	757
Elementary basketball	3,361	2,023	1,600	3,784
Football	617	8,030	7,230	1,417
Gate receipts/passes	-	64,384	64,384	-
Boys track	73	875	888	60
Girls track	(33)	435	307	95
Girls basketball	2,139	7,623	7,540	2,222
Varsity softball	2,097	3,387	3,438	2,046
Baseball	132	135	136	131
Hockey team	8,910	5,713	4,182	10,441
Science supplies	881	-	255	626
Soccer team	570	2,326	2,205	691
Girls Soccer	2,700	2,147	-	4,847
Swim team	12	9,384	9,471	(75)
Golf - Boys	1,434	300	230	1,504
Golf - Girls	1,010	223	476	757
Volleyball team	1,437	2,923	2,800	1,560
Wrestling	1,133	4,329	2,097	3,365
Total Athletics	28,759	127,227	119,571	36,415

Sault Ste. Marie Area Public School

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
Classes and Clubs:				
Art Department	894	9	-	903
Art Club	2,235	2,990	1,475	3,750
Metal Sculpture	240	703	554	389
Band	1,695	1,767	2,382	1,080
Choir	1,346	3,786	5,335	(203)
Class of 2003	100	-	-	100
Class of 2007	1,044	879	728	1,195
Class of 2005	3,390	2,335	4,244	1,481
Class of 2006	1,537	7,890	6,012	3,415
Class of 2008	-	1,244	486	758
Homecoming	-	1,330	1,330	-
Drama club	1,009	4,022	1,557	3,474
Student publications	1,845	1,940	1,547	2,238
Key club	603	4,891	4,673	821
Northern light	(1,004)	31,312	30,344	(36)
Poms Poms	714	2,129	1,923	920
Quiz bowl	52	-	50	2
SADD	392	550	422	520
Student council	2,017	3,126	2,745	2,398
WOW	686	3,282	3,601	367
Total Classes and Clubs	18,795	74,185	69,408	23,572
Vocational Youth Organizations:				
MOUS	1,228	1,293	1,195	1,326
BPA	2,940	16,429	19,321	48
Health Occupation Stud	2,217	1,700	1,237	2,680
Home economics	320	-	150	170
VICA-auto mechanics	773	3,956	3,765	964
VICA drafting	538	1,390	766	1,162
VICA graphic arts	6,725	8,811	5,014	10,522
VICA machine shop	827	71	753	145
VICA welding	227	4,658	4,189	696
VSO	7,758	3,467	5,255	5,970
Construction	4,651	700	85	5,266
Total Vocational Education	28,204	42,475	41,730	28,949
Other High School Accounts:				
Athletic development	7,144	33,632	25,188	15,588
First Robotics	-	48,921	37,772	11,149
Scat club	13	-	-	13
Total Other High School	7,157	82,553	62,960	26,750
Total High School	129,149	458,501	437,969	149,681

Sault Ste. Marie Area Public School

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
MIDDLE SCHOOL				
Art Supplies	637	130	722	45
General Athletics	788	845	706	927
Band	-	434	352	82
Book Deposits	13,722	5,030	5,548	13,204
Book Fines	64	-	-	64
Cafeteria	-	121,520	121,520	-
Cheerleading	178	-	-	178
Chipley	(3)	-	-	(3)
Coffee Fund	21	-	-	21
Computers	516	6	-	522
Concession	2,350	1,301	1,166	2,485
Drafting/Zielke	427	-	42	385
Elementary BKB	9,049	60	-	9,109
Elem Cheerleading	153	-	-	153
Faculty/Flower	8	300	160	148
Fun Funds	2,567	471	157	2,881
A57Garden SE Science	59	-	-	59
General Fund	34	3,803	3,621	216
Home Econ Lab	308	488	503	293
Increasing Reading	2,077	-	2,077	-
Iowa Testing Incentive	-	5,040	249	4,791
Japan - Student	11,400	60	11,460	-
Library	2,911	4,576	5,013	2,474
Math - K. Zielke	1,130	-	108	1,022
Metals - D Panik	15	-	-	15
Office - Principal	5,085	3,694	4,014	4,765
Performing Arts	383	1,275	775	883
Pop Machine - Lobby	20,939	5,046	5,450	20,535
Pride & Culture Grant	-	3,800	1,969	1,831
Quebec Trip	-	8,350	8,981	(631)
Science - Gorsuch	138	8	-	146
Science - Dougherty	262	1,263	1,123	402
6th Grade Activity	815	-	176	639
Social Committee	214	242	356	100
Social Studies	56	-	-	56
Student Council	18,189	21,271	18,949	20,511
Student Needs	6,501	-	3,683	2,818
Student Planner Book	3,025	2,251	3,025	2,251
Tobacco Grant	600	600	54	1,146
Track Team	560	-	-	560
Washington DC	587	430	418	599
Vending Machine	1,224	-	-	1,224
Woodshop-Prac Arts	430	-	-	430
Woods	253	495	321	427
Yearbook	667	9,833	9,591	909
Total Middle School	108,339	202,622	212,289	98,672

Sault Ste. Marie Area Public School

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
BRUCE TWP SCHOOL				
AR/Library	426	2,745	3,171	-
Box Tops/Rebates	1	-	1	-
Gordon Foods	1	-	1	-
General Fund	5,322	3,567	3,518	5,371
Office	2,528	4,590	7,118	-
Lunch	-	21,151	21,151	-
Pop Corn	3,011	2,362	5,373	-
Dress Down	429	741	1,170	-
Sunshire	72	95	167	-
Jennings	59	1,235	1,294	-
Smitka	690	1,133	1,823	-
Sepkowski	64	952	1,016	-
Cadreau	53	937	990	-
Theriault	55	875	930	-
Total Bruce Twp School	12,711	40,383	47,723	5,371
LINCOLN SCHOOL				
Book Fair	986	3,987	4,028	945
Book Fines	653	1,371	1,346	678
Dress	425	169	40	554
Fundraiser, Inc	2,057	4,801	4,783	2,075
General Fund	2,397	14,542	15,995	944
Kymes	61	-	-	61
Laminating	162	25	-	187
Lunch	-	30,238	30,144	94
Office	203	100	-	303
Others	9	-	-	9
Play	877	-	877	-
Pop	1,248	528	578	1,198
Rogers	-	31	1	30
Rogers/Bump	204	5,779	5,690	293
Store	781	1,046	1,267	560
Total Lincoln School	10,063	62,617	64,749	7,931
SOO TOWNSHIP SCHOOL				
General Fund	4,332	4,115	3,708	4,739
Lunch	-	22,900	22,900	-
Library	389	38	-	427
Office	-	7,300	7,300	-
Rebates	187	-	187	-
Student Council	99	-	99	-
Environmental Education	500	-	-	500
Greenhouse #17	347	-	347	-
Teacher Room 15	25	310	198	137
Teacher Room 6	-	142	142	-
Teacher Room 8	-	25	25	-
Teacher Room 9	425	-	361	64
Teacher Room 17	304	1,954	1,293	965
Teacher Room 1	461	-	461	-
Teacher Room 2	-	3,388	2,615	773
Teacher Room 3	64	-	64	-
Total Soo Township School	7,133	40,172	39,700	7,605

Sault Ste. Marie Area Public School

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
WASHINGTON SCHOOL				
Box Top	164	-	-	164
Dress Down	45	23		68
General Fund	4,156	3,541	4,555	3,142
Library/Book Fair	358	7,339	6,892	805
Lunch	-	28,354	28,354	-
Patty Olsens A	20	-	20	-
Pop	1,861	1,614	1,306	2,169
Popcorn	927	920	537	1,310
Store	957	1,264	1,125	1,096
Sunshine	35	230	202	63
PTO	14	-	-	14
Total Washington School	8,537	43,285	42,991	8,831
ALTERNATIVE HIGH SCHOOL				
Lunch	-	3,439	3,439	-
Store	223	4,828	1,942	3,109
Total Alternative High School	223	8,267	5,381	3,109
TOTAL LIABILITIES	\$ 276,155	\$ 855,847	\$ 850,802	\$ 281,200

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon, dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Sault Ste. Marie Area Public Schools in a separate letter dated August 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 05-1.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

Compliance

We have audited the compliance of Sault Ste. Marie Area Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, the Sault Ste. Marie Area Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-2.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005

Sault Ste. Marie Area Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2004	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2005
U. S. DEPARTMENT OF AGRICULTURE									
<i>Passed through State of Michigan Department of Education (MDE):</i>									
Entitlement Commodities	10.550	-	\$ 49,927	\$ -	\$ (2,573)	\$ 49,927	\$ 41,502	\$ 41,502	(10,998)
Bonus Commodities	10.550	-	6,818	-	(57)	6,818	6,868	6,868	(7)
Subtotal Commodities			<u>56,745</u>	<u>-</u>	<u>(2,630)</u>	<u>56,745</u>	<u>48,370</u>	<u>48,370</u>	<u>(11,005)</u>
School Breakfast Program	10.553	1970	78,601	85,227	-	78,601	78,601	78,601	-
National School Lunch Program - All lunches	10.555	1950	55,757	60,856	-	55,757	55,757	55,757	-
National School Lunch Program - Free and Reduced	10.555	1960	261,289	277,640	-	261,289	261,289	261,289	-
Subtotal - Child Nutrition Cluster			<u>395,647</u>	<u>425,846</u>	<u>-</u>	<u>395,647</u>	<u>395,647</u>	<u>395,647</u>	<u>-</u>
Total - U. S. Department of Agriculture			<u>452,392</u>	<u>425,846</u>	<u>(2,630)</u>	<u>452,392</u>	<u>444,017</u>	<u>444,017</u>	<u>(11,005)</u>
U. S. DEPARTMENT OF LABOR									
<i>Passed through Eastern Upper Peninsula Employment Training Consortium (EUPETC):</i>									
Trade Act	17.245	-	-	-	-	11,100	11,100	11,100	-
WIA - Adult	17.258	-	-	-	-	6,300	6,300	6,300	-
WIA - Youth	17.259	-	-	-	-	2,100	2,100	2,100	-
WIA - Dislocated Worker	17.260	-	-	-	-	800	800	800	-
Total - U. S. Department of Labor			<u>-</u>	<u>-</u>	<u>-</u>	<u>20,300</u>	<u>20,300</u>	<u>20,300</u>	<u>-</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES									
<i>Direct Award:</i>									
Connecting Students to Upper Peninsula History	45.162	ED-215589-99	-	32,016	21,206	21,206	-	-	-
U.S. CORPORATION FOR NATIONAL SERVICE									
<i>Passed through Michigan Community Service Commission:</i>									
Americorps	94.007	MCSC/FEL/F-44102	-	-	7,612	7,612	-	-	-
U.S. DEPARTMENT OF EDUCATION									
<i>Direct Award:</i>									
Indian Education - LEA 03-04Regular	84.060A	S060A030124	-	-	12,875	12,875	-	-	-
Indian Education - LEA 04-05Regular	84.060A	B060A040124	252,548	-	-	252,548	252,548	252,548	-
Impact Aid	84.041	S041B-2005-5977	-	-	-	565,688	565,688	565,688	-
Impact Aid	84.041	S041B-2003-5977	-	-	-	108,722	108,722	108,722	-
Total Direct Awards			<u>252,548</u>	<u>-</u>	<u>12,875</u>	<u>939,833</u>	<u>926,958</u>	<u>926,958</u>	<u>-</u>

Sault Ste. Marie Area Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2004	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2005
U.S. DEPARTMENT OF EDUCATION (Continued)									
<i>Passed through State of Michigan Department of Education (MDE):</i>									
ESEA Title I, 2% Schoolwide Planning Grants	84.010	041520 0405	3,000	-	-	3,000	3,000	3,000	-
Title I, Part A - 2004 Regular	84.010	041530 0304	659,447	659,447	77,421	77,421	-	-	-
Title I, Part A - 2005 Regular	84.010	051530 0405	653,779	-	-	513,502	537,598	537,598	24,096
Title I, Part A - 2004 Regular Carryover	84.010	041530 0405	63,109	-	-	63,109	63,109	63,109	-
Subtotal - Title I			<u>1,379,335</u>	<u>659,447</u>	<u>77,421</u>	<u>657,032</u>	<u>603,707</u>	<u>603,707</u>	<u>24,096</u>
Title V - LEA Allocation	84.298	050250 0405	<u>14,750</u>	<u>-</u>	<u>-</u>	<u>14,750</u>	<u>14,750</u>	<u>14,750</u>	<u>-</u>
Technology Literacy Challenge Grant	84.318	054290 0405	<u>16,615</u>	<u>-</u>	<u>-</u>	<u>16,615</u>	<u>16,615</u>	<u>16,615</u>	<u>-</u>
Improving Teacher Quality	84.367	050520 0405	<u>212,334</u>	<u>-</u>	<u>-</u>	<u>212,334</u>	<u>212,334</u>	<u>212,334</u>	<u>-</u>
Improving Teacher Quality	84.367	040520 0304	<u>213,263</u>	<u>213,263</u>	<u>37,196</u>	<u>37,196</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal - Improving Teacher Quality			<u>425,597</u>	<u>213,263</u>	<u>37,196</u>	<u>249,530</u>	<u>212,334</u>	<u>212,334</u>	<u>-</u>
Subtotal - MDE			<u>1,836,297</u>	<u>872,710</u>	<u>114,617</u>	<u>937,927</u>	<u>847,406</u>	<u>847,406</u>	<u>24,096</u>
<i>Passed through Eastern Upper Peninsula Intermediate School District (EUPISD):</i>									
Handicapped Persons Title VI - B: Flowthrough	84.027	040450 0405	<u>419,628</u>	<u>-</u>	<u>-</u>	<u>245,098</u>	<u>419,628</u>	<u>419,628</u>	<u>174,530</u>
Carl Perkins VEA: Regional Allocation - 2003	84.048	043540 401403	<u>110,083</u>	<u>-</u>	<u>-</u>	<u>66,597</u>	<u>110,083</u>	<u>110,083</u>	<u>43,486</u>
Special Education - Preschool Incentive	84.173	050460 0405	<u>26,926</u>	<u>-</u>	<u>-</u>	<u>26,926</u>	<u>26,926</u>	<u>26,926</u>	<u>-</u>
21st Century Learning Grant	84.287A	S287A012433	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
21st Century Learning Grant - Carryover	84.287A	S287A012433	<u>86,633</u>	<u>-</u>	<u>23,810</u>	<u>86,633</u>	<u>62,823</u>	<u>62,823</u>	<u>-</u>
Subtotal - E.E.S.A. - Title II			<u>104,633</u>	<u>-</u>	<u>23,810</u>	<u>104,633</u>	<u>80,823</u>	<u>80,823</u>	<u>-</u>
Freedom to Learn	84.318	034280-2	<u>657,000</u>	<u>-</u>	<u>-</u>	<u>657,000</u>	<u>657,000</u>	<u>657,000</u>	<u>-</u>
Total - EUPISD			<u>1,318,270</u>	<u>-</u>	<u>23,810</u>	<u>1,100,254</u>	<u>1,294,460</u>	<u>1,294,460</u>	<u>218,016</u>
Total - U. S. Department of Education			<u>3,407,115</u>	<u>872,710</u>	<u>151,302</u>	<u>2,978,014</u>	<u>3,068,824</u>	<u>3,068,824</u>	<u>242,112</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
<i>Passed through Eastern Upper Peninsula Employment Training Consortium (EUPETC):</i>									
Work First	93.558	-	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,400</u>	<u>5,400</u>	<u>5,400</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,859,507</u>	<u>\$ 1,330,572</u>	<u>\$ 177,490</u>	<u>\$ 3,484,924</u>	<u>\$ 3,538,541</u>	<u>\$ 3,538,541</u>	<u>\$ 231,107</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Area Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Oversight Agency

The U.S. Department of Education is the oversight agency of the School District, as this federal agency provided the largest amount of indirect and direct federal funding.

Note C - Food Distribution

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. Entitlement donated commodities used during the year amounted to \$41,502, with ending inventory amounting to \$10,998. Bonus donated commodities used during the year amounted to \$6,868, with ending inventory amounting to \$7.

Note D - Reconciliation of Current Receipts to Form R7120 Payments

Payments per Form R7120	\$ 1,379,495
State Fund Programs:	
Driver's Education	(16,124)
School Breakfast	(29,797)
Pass thru Grants:	
Other	33,312
EUPISD	1,100,254
Direct Awards:	
National Endorsement for the Humanities	21,206
US Department of Education	939,833
US Department of Agriculture	<u>56,745</u>
	<u>\$ 3,484,924</u>

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified? No

• Reportable conditions identified that are not
considered to be material weaknesses? Yes

Noncompliance material to financial statements
noted? No

Federal Awards

Internal control over major programs:

• Material weaknesses identified? No

• Reportable conditions identified that are not
considered to be material weaknesses? Yes

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
section 510(a) of Circular A-133? Yes

Identification of Major Programs:

CFDA Numbers

84.010

84.027

84.041

84.173

84.318

Name of Federal Program

Title I – Part A

Title VIB – Handicapped Persons

Impact Aid

Special Education – Preschool Incentive

Freedom to Learn

Dollar threshold used to distinguish
between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings***Reportable Conditions – Noncompliance with State Statutes*****Expenditures in Excess of Appropriations and Special Revenue Fund not Budgeted**

- 05-1. *Statement of Condition/Criteria:* Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2005 the School incurred expenditures in excess of amounts appropriated as follows:

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction	\$ 14,520,815	\$ 14,573,978	\$ (53,163)

Effect: The School has not complied with various State Statutes.

Cause of Condition: Unknown

Recommendation: The Board should monitor and amend the budget as deemed necessary.

Section III – Federal Award Findings and Questioned Costs***Reportable Conditions – Noncompliance with Federal Regulations*****Department of Education**

- 05-2. *Program:* Title IVB-Handicapped Persons; CFDA No. 84.027; Pass-through program from Easter Upper Peninsula Intermediate School District.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on federal programs be documented for co-funded and 100% funded staff.

Condition: The School District does not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School District could be incorrectly charging employee salaries to Federal Program.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually. The Certifications must be signed by the employee and supervisor for employees who work solely for one program.

Management’s Response – Corrective Action Plan: The School will complete the required certifications beginning in the 2005-2006 fiscal year.

Section III – Federal Award Findings and Questioned Costs

Reportable Conditions – Noncompliance with Federal Regulations

2004-1. Payroll Certification

Program: Title I – Part A; CFDA No. 84.010; U.S. Department of Education; Pass-through program from Michigan Department of Education. Title IVB-Handicapped Persons; CFDA No. 84.027; U.S. Department of Education; Pass-through program from Easter Upper Peninsula Intermediate School District.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on federal programs be documented for co-funded and 100% funded staff.

Condition: The School District does not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School District could be incorrectly charging employee salaries to Federal Programs.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually. The certifications must be signed by the employee and supervisor for employees who work solely for one program.

Status: The Title I-Part A payroll wage certifications were completed during 2005. The Title IVB-Handicapped Persons Wage Certifications were not completed as of June 30, 2005 – see 2005-1.

**Unaudited
Additional Information**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	67
Note 1 - Debt Issues Applicable to SEC Rule 15c2-12 Disclosure Requirements	68
Note 2 - Tables:	
A - Property Valuations	68
B - Major Taxpayers	68
C – School District Tax Rates	69
D – State Aid Payments	69
E – Tax Levies and Collections	69
F – Labor Force	70
G – Pension Fund	70
H – Debt Statement	70
I – School Enrollment History	71
J – 2004-2005 General Fund Budget Summary	71
K – Initial 2005-2006 General Fund Budget Summary	71



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

Our report on our audit of the basic financial statements of Sault Ste. Marie Area Public Schools, Michigan, as of and for the year ended June 30, 2005, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005

Unaudited - Sault Ste. Marie Area Public Schools

Additional Information
June 30, 2005

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2005, the District has the following debt issues that apply to SEC Rule 15c2-12.

\$12,175,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 1999 School Building and Site Bonds.

\$7,780,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 2005 Refunding Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Property Valuations - Historical Valuation:

Year	SEV	Change	Total Taxable Value	Change
2004	\$ 500,149,567	5.84%	\$ 409,149,567	4.82%
2003	472,543,450	5.17	390,320,432	3.69
2002	449,316,814	2.93	376,444,831	3.52
2001	436,527,407	5.42	363,649,438	4.46
2000	414,086,106	5.67	348,118,469	3.27
1999	391,873,978	3.77	337,086,603	4.04

Source: School District and Chippewa County Equalization Department

B. Major Taxpayers:

Taxpayer	Product/Service	2004 Taxable Value	IFT Value	2004 IFT & Taxable Value
Edison Sault Electric Co.*	Utility	\$ 14,518,200	\$ -	\$ 14,518,200
DRR Michigan II LLC	Shopping Center	7,818,193	-	7,818,193
SSM Tribe of Chippewa Indians	Various Enterprises	3,419,704	-	3,419,704
Key Plastics LLC	Manufacturer	3,031,600	1,808,200	4,839,800
Cloverland Electric	Utility	2,993,729	-	2,993,729
Precision Edge Surg.	Manufacturer	2,400,500	1,598,400	3,998,900
Michcon Gas	Utility	2,001,600	-	2,001,600
Clydes Restaurant	Restaurants	1,724,000	-	1,724,000
Ojibway Hotel	Hotel/Restaurant	1,568,100	-	1,568,100
Central Savings Bank	Bank	1,547,085	-	1,547,085
TOTAL		\$ 41,022,711	\$ 3,406,600	\$ 44,429,311
2004 Taxable Value		\$		
Top 10 Taxpayers as a % of Total Taxable Value		10.03%		

*Taxes under appeal

Source: Chippewa County Equalization Dept.

NOTE 2 - TABLES: (Continued)

C. School District Tax Rates:

<u>Year</u>	<u>Voted Operating*</u>	<u>Debt</u>	<u>Total</u>
2004-05	17.9604	2.5000	20.4604
2003-04	17.9604	2.6200	20.5804
2002-03	18.0000	2.7500	20.7500
2001-02	18.0000	2.7500	20.7500
2000-01	18.0000	2.7500	20.7500
1999-00	18.0000	2.7500	20.7500

* Levied on non-homestead property only

Adjusted for Headlee Millage Reduction

Source: Chippewa County Equalization Department and School District

D. State Aid Payments:

<u>Fiscal Year Ended 6/30</u>	<u>State Aid Received</u>	<u>Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2005	\$ 16,307,662	5,770	6,700
2004	17,546,563	\$ 6,015	6,700
2003	17,830,335	5,853	6,700
2002	18,518,871	5,969	6,300
2001	17,348,904	5,548	6,000
2000	16,014,992	5,062	5,700
1999	14,933,025	4,759	5,330

Source: School District and Michigan Department of Education

E. Tax Levies and Collections:

<u>Year</u>	<u>Operating Tax Levy</u>	<u>Collections by Units to March 1st</u>		<u>Collections to June 30th</u>	
		<u>Dollar Amt.</u>	<u>Percentage</u>	<u>Dollar Amt.</u>	<u>Percentage</u>
2004	\$ 3,475,286	\$ 2,919,374	84.00%	\$ 3,234,219	93.06%
2003	3,144,000	2,775,649	88.30	3,097,661	98.50
2002	3,091,369	2,698,235	87.28	3,015,251	97.54
2001	3,030,181	2,582,427	85.22	2,945,471	97.20
2000	2,947,578	2,496,992	84.71	2,882,810	97.80
1999	2,979,584	2,465,974	82.76	2,954,252	99.15
1998	2,778,950	2,424,767	87.25	2,740,773	98.63

Source: School District

NOTE 2 - TABLES: (Continued)

F. Labor Force: (2004-05)

<u>Class</u>	<u>No. of Employees</u>	<u>Affiliation</u>	<u>Contract Exp. Date</u>
Administrators	14	Non-Affiliated	6/30/05
Support Group	14	Non-Affiliated	6/30/05
Teachers	178	SEA/MEA	8/31/05
Secretaries	19	USWA	6/30/08
Paraprofessionals	43	USWA	6/30/08
Maintenance/Custodial	23	USWA	6/30/08
Transportation	17.5	USWA	6/30/08
Food Service	24	USWA	6/30/08
TOTALS	<u><u>331.5</u></u>		

SEA – Sault Education Association

MEA – Michigan Education Association

USWA – United Steel Workers of America

Source: School District

G. Pension Fund:

<u>Fiscal Year Ended 6/30</u>	<u>Rate%</u>	<u>Contribution</u>
2005	14.87	\$ 1,998,497
2004	12.99	1,880,440
2003	12.99	1,739,441
2002	12.17	1,672,558
2001	12.16	1,556,173
2000	11.66	1,425,857
1999	10.77	1,690,000

This is a state mandated payment that is required of all school districts.

Source: Audited Financial Statements

H. Debt Statement - Direct Debt:

<u>Bonds Dated</u>	<u>Description</u>	<u>Amount Outstanding 06/30/05</u>
8/1/99	Building and Site, UTQ	\$ 2,150,000
6/1/01	Building and Site, QZAB, LT	582,635
6/1/02	Building and Site, QZAB, LT	518,180
3/1/05	Refunding Bond, UTQ	<u>7,780,000</u>

UTQ – Unlimited Tax Qualified

QZAB – Qualified Zone Academy Bonds

LT – Limited Tax

\$ 11,030,815

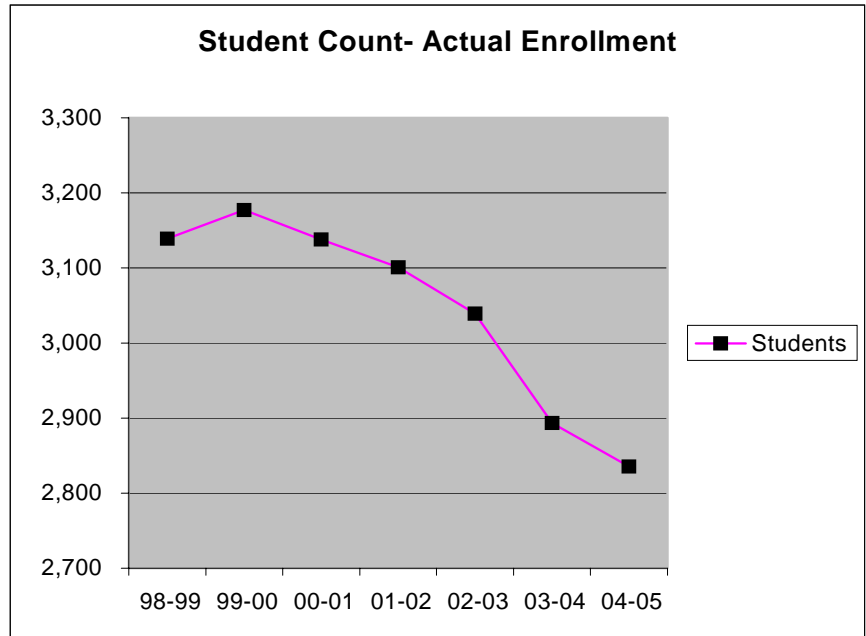
Source: Municipal Advisory Council of Michigan and School District

NOTE 2 - TABLES: (Continued)

I. School Enrollment History:

<u>School Year</u>	<u>Enrollment</u>
2004/05	2,814
2003/04	2,893
2002/03	3,039
2001/02	3,108
2000/01	3,138
1999/00	3,177
1998/99	3,139

Source: School District



J. 2004-2005 General Fund Budget Summary:

2003/04 Revenues	\$ 23,581,804
2003/04 Expenditures	<u>(24,464,249)</u>
Excess Revenues Over Expenses	\$ (882,445)
July 1, 2004 Fund Balance	<u>3,695,914</u>
June 30, 2005 Fund Balance	<u><u>\$ 2,813,469</u></u>

K. Initial 2005-2006 General Fund Budget Summary:

2005/06 Revenues	\$ 23,083,100
2005/06 Expenditures	<u>(23,912,615)</u>
Excess Revenues Over Expenses	\$ (829,515)
July 1, 2005 Fund Balance	<u>2,813,469</u>
Estimated June 30, 2006 Fund Balance	<u><u>\$ 1,983,954</u></u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
876 Marquette Avenue
Sault Ste. Marie, MI 49783

We have audited the basic financial statements of Sault Ste. Marie Area Public Schools for the year ended June 30, 2005, and have issued our reports thereon dated August 26, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Sault Ste. Marie Area Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Area Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Sault Ste. Marie Area Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major Federal programs for the purpose of expressing an opinion on the Sault Ste. Marie Area Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Sault Area Public School's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Sault Ste. Marie Area Public School are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by Sault Ste. Marie Area Public School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sault Ste. Marie Area Public School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sault Ste. Marie Area Public School, either individually or in the aggregate, indicate matters that could have a significant effect on the Sault Ste. Marie Area Public School's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Sault Ste. Marie Area Public Schools or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sault Ste. Marie Area Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

Payroll (Prior Year)

While testing payroll procedures, it was noted that there were missing Form W-4's, *Employee Withholding Allowance*, and some did not indicate the withholding status. A Form W-4 should be on file for all employees and the form should be complete in its entirety. Also, it was noted Form I-9's, *Proof of Citizenship*, did not have authorizing signatures. All forms should be signed by an authorized representative of the School.

Status: Corrected.

Varsity Blues Inventory (Prior Year)

The inventory amount for Varsity Blues was recorded in the general ledger at the retail value. All inventories remaining at year end should be recorded at the original purchase price, not at the amount the item is priced on the shelf. The school will need to record all inventories on the balance sheet at the original cost.

Status: Corrected.

Food Service Accounts Receivable (Prior Year)

The Food Service Accounts Receivable listing contains over 3,900 recipients, some of which are inactive or are no longer within the District. The listing should be reviewed to determine which recipients are inactive and refund any significant overpaid amounts.

Status: Corrected.

Cash (Repeat 2004)

We noted during our review of the Board of Education Minutes, the closing of several bank accounts was not authorized. It is recommended that all bank accounts opened or closed be authorized by the Board of Education.

Infrastructure Reporting (Repeat 2004)

The School District implemented provisions of Governmental Accounting Standards Board Statement 34 – Basic Financial Statements and Management’s Discussion and Analysis. As part of the requirements, the School is required to report infrastructure assets such as right-of-ways, roads, street lighting, timber and mineral rights etc. The School District needs to inventory these types of assets and begin a process of depreciation as well as establish a capitalization policy to comply with the standard.

Check Sequence

During our review of proper cut-off procedures it was noted the check numbers 33847 through 34089 were used twice. The School personnel noticed this duplication after the year ended June 30, 2005. However, it is still recommended care be taken when rolling information forward for the next fiscal school year.

Title I Budget

During our review of the Title I budget allocation, it was noted that the final budget did not match the grant allocation budget prepared by the Grant Coordinator of the School. It was determined the amount variances were not material to the grant or the financial statements, however, it is recommended that once the allocation budget is determined, it not be amended unless there is a change in Title I grant funds or other reason allowed by the grant agreement.

Payroll

It was noted during our review of payroll that one employee's FICA is charged to the incorrect account. We recommend account posting be reviewed to ensure FICA and related accounts are coded to the correct account.

Receipts

During our review of the receipts system controls, we were unable to trace receipts of the daycare to one of the bank deposit slips. There was an immaterial difference; however, it is recommended that the receipt number(s) included on each deposit slip be written next to the amount on the deposit slip. This will allow for tracing and better control.

Contracts

The School's Purchasing policy states bids are to be obtained for non-emergency items or services in excess of \$5,000, opened by the Superintendent in the presence of at least one (1) witness, and shall be approved by the Board. Of the contracts we reviewed, it was noted that one was not approved by the Board. We recommend the Board all contracts in accordance with the policy or amend the policy to meet the practice of the School.

Payroll Certifications

OMB Circular A-87 attachment B11(h) requires support for all salaries and wages charged to federal grants be documented for co-funded and 100% funded staff. Employees who work 100% on a single federal grant activity are required to complete wage certifications at least semi-annually and should be signed by the employee and supervisor. Those employees working on multiple activities must document the amount of time spent on each federal activity and signed by the employee. This documentation must be completed at least monthly and must coincide with a payroll. The School did not obtain the proper documentation for the Special Education Flow-through federal grant; see 2005-1 of the Schedule of Findings and Questioned Costs. It is recommended the School obtain the appropriate wage certification for each federal grant in which salaries and wages are charged to the grant.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005